Office Supreme Court, U. S.
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JAMES D. MAHER
CLERK

IN THE

Supreme Court of the United States.

OCTOBER TERM, A. D. 1917.

No. [redacted] 363

BOSTON STORE OF CHICAGO,
Appellant,

vs.

AMERICAN GRAPHOPHONE COMPANY and
COLUMBIA GRAPHOPHONE COMPANY,
Appellees.

MEMORANDUM IN OPPOSITION TO APPELLANT'S MOTION TO ADVANCE THE CAUSE.

ELISHA K. CAMP,
Counsel for Appellees.

C. G. Burgoyne Printing Business, 73-78 Spring St., New York.

IN THE

Supreme Court of the United States,

OCTOBER TERM, A. D. 1917.

No. 863.

BOSTON STORE OF CHICAGO, Appellant, vs. AMERICAN GRAPHOPHONE COMPANY and COLUMBIA GRAPHOPHONE COMPANY, Appellees.	Upon Certificate from the United States Circuit Court of Appeals in and for the Seventh Circuit.

Memorandum for Appellees in Opposition to Appellant's Motion to Advance the Hearing of the Cause.

TO THE HONORABLE THE JUSTICES OF THE SUPREME COURT OF THE UNITED STATES:

The Appellees respectfully submit the following in opposition to the motion of Appellant to advance the hearing of this cause:

1. Appellant's motion should be denied because of the delay of eight months in making it,—the Court of Appeals having filed its Certificate herein on January 12, 1917.

2. The motion seeks to draw into the case now before this Court a consideration of the Sherman Act, upon which the Court of Appeals did not request the advice of this Court; and it seeks also to draw into the case here all of the other questions presented to the Court of Appeals, but not covered by that Court's Certificate. A similar attempt was heretofore made by Appellant on its application to send up the entire record, which application was denied by this Court.

3. The only questions concerning which the Court of Appeals desires advice are :

"1. Does jurisdiction attach under the patent laws of the United States ?

"2. If so, do the recited facts disclose that some right or privilege granted by the patent laws has been violated ?

"3. Can a patentee, in connection with the act of delivering his patented article to another for a gross consideration then received, lawfully reserve by contract a part of his monopoly right to sell ?

"4. If jurisdiction attaches solely by reason of diversity of citizenship, do the recited facts constitute a cause of action ? "

4. The Certificate adequately recites all of the ultimate facts reasonably necessary for the consideration and determination of the questions of law which are submitted for the advice of this Court.

Thus : it shows that Appellee, the American Company, as assignee of certain U. S. Letters Patent, is the manufacturer under said patents of sound records for use upon grafonolas; and that Appellee, the Columbia Company, markets the said sound records so manufactured by the American Company, for and as the agent of the American Company ; it also shows that Appellant entered into an agreement in writing with the Columbia Company, acting as such agent of the American Company ; it sets out said contract in full ; it recites that " subsequent thereto and prior to the filing of the bill of complaint, the Columbia Company,

acting as the agent of the American Company, in pursuance of said contract, delivered in Chicago to the Boston Store a quantity of such phonographic records manufactured by the American Company under said letters-patent; and the Boston Store paid the Columbia Company the full amount which had theretofore been fixed by the American Company"; it also shows that said contract was one of many similar contracts constituting part of the patentee's system of price maintenance, by which, in consideration of the prices at which prescribed quantities of the patented products are agreed to be delivered to the dealer, the latter in turn obligates himself in selling such products to adhere strictly to and be bound by and not to depart from the official list prices promulgated by the Columbia Company; and that such contracts, when entered into, cover all such products which may thereafter from time to time be acquired by such dealers from the Columbia Company without any new contract being entered into at the time when each order for goods subsequent to the entering into of said contract is placed or filed by said dealers.

5. The Certificate further shows that "prior to the filing of the bill of complaint the Boston Store had knowingly sold and at the time of the filing of said bill of complaint was knowingly selling at retail to the public the said records so aforesaid obtained from the Columbia Company, at a price less than the official list prices established by the American Company and the Columbia Company."

6. The appellant cannot treat its contract as a mere "scrap of paper," to be broken with impunity, and be heard to complain of the consequences following such conduct. It is no hardship for it to be required to do what it had already *agreed* to do.

7. It is not true, as alleged by appellant, and there is no evidence that dealers in Columbia records are *prevented* from competing with each other in the sale thereof by the existence and enforcement of similar contracts. On the contrary, the

said contracts *permit* the dealers in such patented articles to compete fairly and on equal terms in the way they all, including appellant, *agreed* to compete.

It is not true, and there is no evidence, that the system of price restriction adopted by the appellees, and *agreed to* by the appellant, results in any "detriment, prejudice and disadvantage to the public," as alleged by appellant.

8. The Court, of course, knows the condition of its own calendar and whether it will take two years or more for the case to be reached, as alleged by appellant; but even assuming the allegation to be correct, no sufficient showing has been made why the cause should be advanced.

Respectfully submitted,

ELISHA K. CAMP,

Counsel for Appellees.

September, 1917.

Office Supreme Court, U. S.
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JAN 27 1917
JAMES D. MAHER
CLERK

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, A. D. 1916.

No. 883. 363

BOSTON STORE OF CHICAGO,
Appellant,
vs.
AMERICAN GRAPHOPHONE COMPANY and COLUMBIA GRAPHOPHONE COMPANY,
Appellees.

On a certificate from the United States Circuit Court of Appeals in and for the Seventh Circuit.

APPLICATION FOR THE WHOLE RECORD AND CAUSE TO BE SENT UP TO THE SUPREME COURT FOR ITS CONSIDERATION AND DETERMINATION.

HAMILTON MOSES,
JOSEPH W. MOSES,
WALTER BACHRACH,
Attorneys for Petitioner (Appellant).

Geo. Hornstein Co., Printer, Chicago.

IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1916.

No. 863.

BOSTON STORE OF CHICAGO, Appellant, vs. AMERICAN GRAPHOPHONE COMPANY and COLUMBIA GRAPHOPHONE COMPANY, Appellees.	On a certificate from the United States Circuit Court of Appeals in and for the Seventh Circuit.

APPLICATION FOR THE WHOLE RECORD AND CAUSE TO BE SENT UP TO THE SUPREME COURT FOR ITS CONSIDERATION AND DETERMINATION.

To the Honorable the Supreme Court of the United States:

The petitioner and applicant, the Boston Store of Chicago, an Illinois corporation, respectfully shows and submits that the entire record and this cause should be sent up to the Supreme Court of the United States for its consideration and determination for the following reasons, to-wit:

Upon the record (a certified copy of which is filed herewith) there is presented two questions of great and wide reaching importance to the public, and are as follows:

(1) May a patentee who manufactures *and sells* its patented product, in the act and as part of the transaction of *sale*, restrict, *by contract*, the re-sale price of the patented product by his vendee?

(2) May a patentee who manufactures and *sells* its patented product, maintain and enforce *by contract* a price maintenance system with its vendees, being 5,000 in number, whereby competition among such vendees as to price on resale is prevented?

The questions submitted to this Honorable Court by the Circuit Court of Appeals in its certificate (a copy thereof hereto attached and marked "appendix"), we respectfully submit, fail to fully advise this Court of some of the facts, and this Court can better pass upon the questions raised by the record submitted by the Court of Appeals upon consideration of the whole record.

Question 1 submitted is:

1. Does jurisdiction attach under the patent laws of the United States?

In order that a proper answer to this question be arrived at, we respectfully submit that upon authority of *The Fair* v. *Kohler Die & Specialty Co.*, 228 U. S., 22, the Court should be advised of the plaintiff's pleadings and the relief which it prays. The certificate, we respectfully submit, fails to disclose either. An inspection of the record is necessary.

Question 2 submitted is:

2. If so, do the recited facts disclose some right or privilege granted by the patent laws?

In order that a proper answer to this question be arrived at, we submit that the certificate does not

(other than the recital in the contract) show this Court whether the "delivery" of the patented product was as part of a transaction of purchase and sale. An inspection of the bill of complaint shows that there was a sale (Rec., pp. 72 and 74) of the patented products, and the memorandum opinion of Judge Geiger, who was the trial Judge, stated the question involved to be (Rec., p. 85):

> "Can a patentee upon a sale of a patented article by contract require of his immediate vendee the observance of price restrictions upon resale?"

And again (on Rec., p. 87):

> "* * * the question here is, can a patentee while in the act of exercising his monopolistic right of sale lawfully bind his vendee to terms of resale to be respected by the latter?"

Hence, we contend respectfully that if the determination whether there was a sale or not by the appellee to the appellant is left to this court in the first instance, that can only be fairly determined from the record.

Question three submitted for answer is:

3. Can a patentee, in connection with the act of *delivering* his patented article to another for a gross consideration then received, lawfully reserve by contract a part of his monopoly right to sell?

In order that a proper answer to this question be arrived at we submit that it is necessary to determine whether the delivery was in connection with a sale or with a mere license to use upon condition as in the *Dick* case (224 U. S., 1) or with a license to sell the patented product for the patentee. The

certificate does not fully reflect the status of the parties in that respect, while a full inspection of the record does,—it discloses an absolute sale.

Question 4 submitted is:

4. If jurisdiction attaches solely by reason of diversity of citizenship, do the recited facts constitute a *cause of action?*

Again we submit that the certificate fails to disclose the relief prayed by the bill of complaint, and this court can only ascertain that fact from the record. (Rec., p. 76.) An inspection of the bill of complaint is necessary, we submit, for answer to this question.

The certificate states that:

> "In pursuance of said price maintenance system the Columbia Company, acting under said instructions, and as the agent of the American Company, entered into contracts similar to that hereinabove set forth with over five thousand dealers in phonographic records located in the United States, and its territorial possessions."

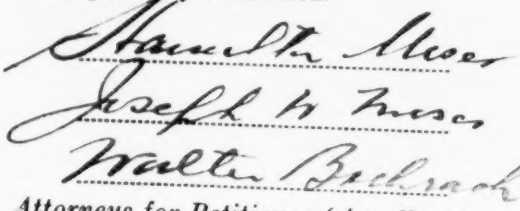
The pleadings show (Rec., p. 73) that those 5,000 dealers "are now observing and operating under said contracts."

This is a material fact to be considered in answering questions three (3) and four (4), for it is the contention of your petitioner (appellant) that the said system and its observance under said 5,000 contracts is in violation of the Sherman Act.

WHEREFORE, your petitioners herewith tender a duly certified copy of the entire record of said cause,

and most respectfully pray that the whole record and said cause be sent to the Honorable Supreme Court of the United States for its consideration and determination.

Respectfully submitted.



Attorneys for Petitioner (Appellant).

APPENDIX.

IN THE

United States Circuit Court of Appeals

FOR THE SEVENTH CIRCUIT.

No. 2324. OCTOBER TERM AND SESSION, 1916.

BOSTON STORE OF CHICAGO, a Corporation,
Appellant,
vs.
AMERICAN GRAPHOPHONE COMPANY, a Corporation, and COLUMBIA GRAPHOPHONE COMPANY, a Corporation,
Appellees.

Appeal from the United States District Court, Northern District of Illinois, Eastern Division.

In this case certain questions of law arise, concerning which this court desires the advice of the Supreme Court.

Appellee, the American Company, a West Virginia corporation, with its principal office in Bridgeport, Connecticut, as assignee of certain Letters Patent of the United States, is the manufacturer under said patents of sound records for use upon graphophones.

Appellee, the Columbia Company, a West Virginia corporation, with its principal office at Washington, D. C., markets the said sound records so manufactured by the American Company, for and as the agent of the American Company.

Appellant, the Boston Store, an Illinois corporation, with its principal office in Chicago, Illinois, is engaged in the sale of merchandise at retail, and on the 15th day of October, 1912, at Chicago, entered into an agreement in writing with the Columbia Company, acting as such agent of the American Company, as follows:

No Jobbing Privileges Extended Under This Contract.
Notice to Purchasers of "Columbia" Graphophones, Grafonolas, Records and Blanks.

All "Columbia" Graphophones, Grafonolas, Records and blanks are manufactured by the American Graphophone Company under certain patents and licensed and sold through its sole sales agent the Columbia Phonograph Company (General), subject to conditions and restrictions as to the persons to whom and the prices at which they may be resold by any person into whose hands they come. Any violation of such conditions or restrictions makes the seller or user liable as an infringer of said patents.

After reading the foregoing notice and in consideration of current dealers' discounts given to me/us by the Columbia Phonograph Company (General, I/we Hereby Agree to take any Columbia product received by me/us from said company, either directly or through any intermediary, under the conditions and restrictions referred to in said notice and to adhere strictly and be bound by the official list prices established from time to time by said Company and that I/we will neither give away, sell, offer for sale, nor in any way dispose of such goods, either directly or through any intermediary, at less than such list prices, nor induce the sale of such goods by giving away or reducing the price of other goods, nor sell or otherwise dispose of any of said goods, directly or indirectly, outside of the United States, and I/we understand that a breach of this agreement will amount to an infringement of said patents and subject me/us to a suit and damages therefor. I/we admit the validity of all patents under which said product is manufactured and hereby covenant and agree not to question or contest the same in any manner whatsoever. I/We further understand and agree that this license extends the right to market said Columbia product from the below mentioned address only, and that a separate contract is required to market said product from a branch store or stores, or through an agent or agencies at any other point.

I/We acknowledge the receipt of a duplicate of the foregoing notice and contract and that no representations or guarantees have been made by the salesman on behalf of said Company which are not herein expressed. I/We

also acknowledge receipt of the official list prices on all Columbia product in force at the date hereof.

Dated Oct. 15 1912.
Witness F. Austin Coss
Signed Boston Store
Business Dept. Store.
Street & No. State and Madison
City Chicago State Ill.

40 & 10%
Chicago, Ill.

Form 1098 Oct. 1st, 1911 U. S.

Columbia Phonograph Company, General.
Contract
Retail Dealer's "500 Purchase" Price
Maintenance.
Chicago

Name Boston Store
Date Oct. 15, 1912
Rating A A A 1
(if references attach copy)
Terms (30 days net 2% 10
Credit Limit For requirements.
Amount of Order, net 502 44
(See copy of original order attached)

O. K. FUHRI.
CHAS. F. BAER.
Manager.

Note: All orders taken under this contract must be submitted and taken subject to the approval of the Wholesale Department with the information requested. Such stores as come under District supervision should submit such orders through the District Manager.

Retail Dealer's.
"$500 Purchase" Discounts.
Subject to Change.
Purchase Requirements.

An order for not less than $500 net in one order of Columbia Graphophones, Grafonolas, Records and Supplies, for immediate shipment, exclusive of premium machines and previous purchases, and thereafter the purchase of Columbia Graphophones, Grafonolas, Records and Supplies to an amount aggregating not less than $1000 net, each year, from the date of making above purchase.

Dealers must keep on hand at all times sufficient stock for exhibition and sales purposes.

Discounts on Machines.

Commercial Machines and Supplies..No Discount.
Type BC Graphophone.....30 and 10 Percent.
Other Types of Graphophones.....40 and 10 Percent.
Grafonolas listing less than $100.....40 and 10 Percent.
Grafonolas listing at $100 and over...35 and 10 Percent.

Discounts on Records.

Indestructible cylinder .....40 Percent.
65c 10″ double disc records.....41c net.
75c 10″ double disc records.....40 Percent.
$1.00 12″ double disc records.....40 Percent.
Fonotipia and Symphony series, 12″
Blue Label, Grand Opera and Concert Selections .....40 and 10 Percent.

Accessories and Parts: Discounts on Repair Parts and miscellaneous supplies same as discounts on machines.

Special net prices quoted on Record and Cabinets and Needles.

Terms: Net Thirty Days.
2% Ten Days.

Delivery: F. O. B. Points of shipment.

Note: See current Columbia catalogues for list prices on machines, records and supplies.

Subsequent thereto and prior to the filing of the bill of complaint, the Columbia Company, acting as the agent of the American Company, in pursuance of said contract delivered in Chicago to the Boston Store a quantity of such phonographic records manufactured by the American Company under said Letters Patent; and the Boston Store paid the Columbia Company the full amount which had theretofore been fixed by the American Company.

The American Company, acting through its agent, the Columbia Company, employs in the marketing of its phonographic records and its other products a system of price maintenance, by which system it has been its uniform practice to cause its agent, the Columbia Company, to enter into similar contracts as the one above set forth, in the name of the Columbia Company, with dealers in phonographic records, located in the United States and its territorial possessions, to whom the American Company delivers its product, through the Columbia Company, by which it is provided, in part, that in consideration of the prices at which prescribed quantities

of the various said products of the American Company are agreed to be delivered to such dealer, the dealer, in turn, obligates himself or itself in selling such products to adhere strictly to and to be bound by and not to depart from the official list prices promulgated from time to time by the Columbia Company for said products, and further expressly covenants not in any way to dispose of any such products at less than such list prices. The American Company fixes and prescribes the prices of its said products, and said contracts when entered into cover all such products of the American Company which may thereafter from time to time be acquired by such dealers from the Columbia Company, without any new express price restriction contract being entered into at the time when each order for goods subsequent to the entering into of said contract is placed or filled by said dealers.

In pursuance of said price maintenance system the Columbia Company, acting under said instructions and as the agent of the American Company, entered into contracts similar to that hereinabove set forth with over five thousand dealers in phonographic records located in the United States and its territorial possessions.

Prior to the filing of the bill of complaint the Boston Store had knowingly sold and at the time of the filing of said bill of complaint was knowingly selling at retail to the public the said records so aforesaid obtained from the Columbia Company, at a price less than the official list prices theretofore established by the American Company and by the Columbia Company.

The amount in controversy, exclusive of interest and costs, largely exceeds the sum of three thousand dollars.

The questions concerning which this court desires advice are these:

1. Does jurisdiction attach under the patent laws of the United States?

2. If so, do the recited facts disclose that some right or privilege granted by the patent laws has been violated?

3. Can a patentee, in connection with the act of delivering his patented article to another for a gross consideration then received, lawfully reserve by contract a part of his monopoly right to sell?

4. If jurisdiction attaches solely by reason of diversity of citizenship, do the recited facts constitute a cause of action?

The clerk of this court is directed to transmit a certified copy hereof to the Supreme Court.

FRANCIS E. BAKER,
JULIAN W. MACK,
SAMUEL ALSCHULER,
Judges of the United States Circuit Court of Appeals, for the Seventh Circuit, sitting in said cause.

UNITED STATES CIRCUIT COURT OF APPEALS,

For the Seventh Circuit.

UNITED STATES OF AMERICA, } ss.
SEVENTH JUDICIAL CIRCUIT. }

I, EDWARD M. HOLLOWAY, Clerk of the United States Circuit Court of Appeals for the Seventh Circuit, DO HEREBY CERTIFY that the foregoing certificate and statement of facts in the case of Boston Store of Chicago, appellant, versus American Graphophone Company and Columbia Graphophone Company, appellees, was duly filed and entered of record in my office by order of said Court and, as directed by said Court, the said certificate is by me forwarded to the Supreme Court of the United States, for its action thereon.

IN WITNESS WHEREOF I have hereunto subscribed my name and affixed the seal of said Court, at the City of Chicago, this ..... day of November, A. D. 1916.

.....

Clerk of the United States Circuit Court of Appeals, for the Seventh Circuit.

17

Office Supreme Court, U. S.
FILED
MAY 28 1917
JAMES D. MAHER
CLERK

IN THE

SUPREME COURT OF THE UNITED STATES

MARCH TERM, A. D. 1917.

No. [redacted] 363

BOSTON STORE OF CHICAGO,
Appellant,
vs.
AMERICAN GRAPHOPHONE COMPANY and COLUMBIA GRAPHOPHONE COMPANY,
Appellees.

Upon certificate from the United States Circuit Court of Appeals, in and for the Seventh Circuit.

BRIEF ON BEHALF OF APPELLANT, BOSTON STORE OF CHICAGO.

HAMILTON MOSES,
JOSEPH W. MOSES,
WALTER BACHRACH,
Solicitors for Appellant.

Geo. Hornstein Co., Printer, Chicago.

INDEX TO BRIEF.

	PAGE.
Statement of facts certified	1-3
The questions submitted	4
Brief of argument	4-5
Argument re question No. 1	8-12
Argument re questions Nos. 2 and 3	12-35
Argument re question No. 4	36-57
The system of contract is in restraint of trade and against public policy and void.	46

CITATIONS.

Adams v. Burke, 17 Wall., 453	16, 19
American Graphophone Co. v. Boston Store, 225 Fed., 785	6, 28, 30
Bauer v. O'Donnell, 229 U. S., 1	8, 16, 19, 23, 25, 30, 33, 42
Bement v. Nat. Harrow Co., 186 U. S., 70	18
Bloomer v. McQuewan, 14 How., 539	20
Bobbs-Merrill Co. v. Straus, 210 U. S., 339	27-32, 33, 40
Chaffee v. Belting Co., 22 How., 217	22
Continental Wall P. Co. v. Voight, 148 Fed., 271	47
Dr. Miles Med. Co. v. Park, 220 U. S., 373	36, 42, 53
Ford Motor Co. v. Union Sales Co., 225 Fed., 373	24, 30, 41
Geneva Furniture Co. v. Karpen, 238 U. S., 254	12
Healy v. Sea Gull Spec. Co., 237 U. S., 479.	12
Henry v. Dick, 224 U. S., 1	8, 9, 43

Keeler v. Standard F. Bed Co., 157 U. S., 659 ..... 22, 31, 52
Montague & Co. v. Lowry, 193 U. S., 38... 49
Motion P. P. Co. v. Universal F. M. Co., — U. S., — 5
Standard S. Mfg. Co. v. U. S., 226 U. S., 20. 49
Straus v. Victor T. M. Co., — U. S., — 7, 8, 30
The Fair v. Kohler Die Co., 228 U. S., 22. 10
U. S. v. Addyston Pipe & S. Co., 85 Fed., 271 ..... 48, 52
Same case, 175 U. S., 211..... 57
U. S. v. Kellogg T. C. F. Co., 222 Fed., 725. 51
Victor T. M. Co. v. Straus, 222 Fed., 524.. 30

IN THE

Supreme Court of the United States

MARCH TERM, A. D. 1917.

No. 863.

BOSTON STORE OF CHICAGO, *Appellant,* vs. AMERICAN GRAPHOPHONE COMPANY and COLUMBIA GRAPHOPHONE COMPANY, *Appellees.*	Upon certificate from the United States Circuit Court of Appeals, in and for the Seventh Circuit.

BRIEF ON BEHALF OF APPELLANT, BOSTON STORE OF CHICAGO.

To the Honorable Justices of the Supreme Court of the United States:

This proceeding is pending in this Honorable Court upon a certificate under the Court of Appeals Act of March 31, 1891.

The certificate shows that the American Company, a West Virginia corporation, as assignees of certain letters patent of the United States, manufactures under said patents sound records for use upon graphophones.

The Columbia Company, also a West Virginia

corporation, markets the said records for and as agent of the American Company.

The Boston Store is an Illinois corporation engaged in the sale of merchandise at retail.

On October 15, 1912, at Chicago, Illinois, it entered into an agreement in writing with the Columbia Company, acting as agent of the American Company. For brevity, we abstain from setting forth verbatim herein this agreement, but respectfully refer the court to a copy appearing in the record. (Tr., 1, 2 and 3; Rec., 4.) In brief, the agreement provides that the records are manufactured by the American Company, and licensed and sold through its sole sales agent, the Columbia Company, subject to conditions and restrictions, one of which is the price at which the records may be resold by any person into whose hands they may come. A violation of the condition and restriction is declared therein to make a seller or user a patent infringer. The document is signed by the Boston Store.

In it it expressly agrees that it will take the records received by it from the Columbia Company, either directly or through any intermediary, under the conditions and restrictions referred to, and to adhere strictly and be bound by the official list prices established from time to time by said company, and that it will not sell the records, either directly or through any intermediary, at less than such list prices.

The said agreement contains the following:

> "* * * a breach of this agreement will amount to an infringement of said patents and subject us to a suit and damages therefor." (Tr., 1 and 2; Rec., 2 and 3.)

The Columbia Company, acting as the agent of the American Company, in pursuance of the contract, delivered in Chicago to the Boston Store a quantity of the patented phonographic records, and the Boston Store paid the Columbia Company the full amount which had theretofore been fixed by the American Company. (Tr., 3; Rec., 4.)

The Boston Store knowingly sold and was selling at retail to the public the said records at a price less than the official list price theretofore established by the American Company and by the Columbia Company, and the American Company and the Columbia Company thereupon filed their bill of complaint. (Tr., 4; Rec., 5.)

The American Company, through its agent, the Columbia Company, employs in the marketing of its patent records a system of price maintenance, under which the Columbia Company is required to enter into similar contracts as the one entered into with the Boston Store, with dealers of phonographic records located in the United States and its territorial possessions, to which the American Company, acting through the Columbia Company, delivers its products. (Tr., 3 and 4; Rec., 4 and 5.)

In pursuance of the price maintenance system, contracts of the same character as the one entered into by the Boston Store were entered into with over five thousand dealers of phonographic records in the United States and its territorial possessions.

The questions concerning which the Court of Appeals desires the advice of this Court are four in number, which questions are submitted under the facts which are certified. They are as follows:

(1) Does jurisdiction attach under the patent laws of the United States?

(2) If so, do the recited facts disclose that some right or privilege granted by the patent laws has been violated?

(3) Can a patentee in connection with the act of delivering his patented article to another for a gross consideration then received, lawfully reserve by contract a part of his monopoly right to sell?

(4) If jurisdiction attaches solely by reason of diversity of citizenship, do the recited facts constitute a cause of action?

We respectfully submit and we shall attempt to demonstrate that

(a) THE FIRST QUESTION SHOULD BE ANSWERED IN THE AFFIRMATIVE ON AUTHORITY OF

Henry v. *A. B. Dick Co.*, 224 U. S., 1.
The Fair v. *Kohler Die Co.*, 228 U. S., 22.
Healy v. *Sea Gull Specialty Co.*, 237 U. S., 479.
Geneva Furniture Co. v. *Karpen*, 238 U. S., 254.

(b) THE SECOND QUESTION SHOULD BE ANSWERED IN THE NEGATIVE ON AUTHORITY OF

Adams v. *Burke*, 17 Wall., 453.
Bauer v. *O'Donnell*, 229 U. S., 1.
Bement v. *Natl. Harrow Co.*, 186 U. S., 70.
Bloomer v. *McQuewan*, 14 How., 539.
Chaffee v. *Belting Co.*, 22 How., 217.
Keeler v. *Standard Folding Bed Co.*, 157 U. S., 659.

Ford Motor Co. v. *Union Motor Sales Co.*, 225 Fed., 373.

Bobbs-Merrill Co. v. *Straus*, 210 U. S., 339.

Victor Talking Machine Co. v. *Straus*, 222 Fed., 524.

Straus v. *Victor Talking Machine Co.*, ... U. S., ...; decided April 9, 1917.

Motion Picture Patent Co. v. *Universal Film Mfg. Co. et al.*, ... U. S., ...; decided April 9, 1917.

(c) THE THIRD QUESTION SHOULD BE ANSWERED IN THE NEGATIVE ON AUTHORITY OF CASES LAST CITED.

(d) THAT THE FOURTH QUESTION SHOULD BE ANSWERED IN THE NEGATIVE ON AUTHORITY OF

Dr. Miles Medical Co. v. *J. D. Park & Sons Co.*, 220 U. S., 373.

Bobbs-Merrill Co. v. *Straus, supra.*

Ford Motor Co. v. *Union Motor Sales Co., supra.*

Henry v. *A. B. Dick Co., supra* (dissenting opinion).

Continental Wall Paper Co. v. *Voight*, 148 Fed., 939; affd., 212 U. S., 227.

U. S. v. *Addyston Pipe & Steel Co.*, 85 Fed., 271; affd., 175 U. S., 211.

Standard Sanitary Mfg. Co. v. *U. S.*, 226 U. S., 20.

U. S. v. *Kellogg Toasted Corn Flake Co.*, 222 Fed., 725.

Keeler v. *Standard Folding Bed Co., supra.*

Montague & Co. v. *Lowry*, 193 U. S., 38.

The "Delivery" Was on a Sale.

It should be noted that the Court of Appeals does not characterize the delivery of the "quantity of such phonographic records" as a "sale" by the appellees to the appellant; nor does it characterize the payment of the "full amount which had theretofore been fixed by the American Company" as the purchase price therefor. There is an essential difference (in determining the powers of the patentee in restricting the future sales of a patented article) between a "sale" thereof and a "license to sell" the same, and also between a "sale" thereof and a mere "license to use" the same. This difference we propose, in a discussion of the questions, and in our attempt to aid in arriving at the answers thereto, to demonstrate.

Was the "delivery" in connection with "sale" thereof, and was the payment of the "full amount" the "purchase price" therefor?

The certificate says the delivery and the payment was "in pursuance of said contract." (Tr., 4; Rec., 3.) The so-called contract says, by way of notice: "All Columbia * * * records * * * are manufactured by the American Graphophone Company * * * and *sold* through its sole sales agents, the Columbia * * * Company, subject to * * * prices at which they may be *resold.* * * *" (Tr., 1; Rec., 2.)

In the District Court the District Judge, in the case at bar, said (see *American Graphophone Company* v. *Boston Store,* 225 Fed., 785):

> "The case is of importance only insofar as it presents the question: 'Can a patentee upon the *sale* of a patented article by contract require of his immediate vendee the observance of price restrictions upon *resale?*"

And later, on p. 786:

> "* * * but the question here is: 'Can a patentee while in the act of exercising his monopolistic right of sale lawfully bind his vendee to terms of *resale* to be respected by the latter?'" (Italics ours.)

The American Graphophone Co. v. *Columbia Company, as amicus curiae,*

filed a brief in this Court in case No. 374, entitled

Straus v. *Victor Talking Machine Co., supra,* decided April 9, 1917.

and advised the Court that the instant case would be shortly certified to this Honorable Court. In that brief they said, on page 4:

> "That suit (referring to the instant case) involves in part the right * * * of a patentee, in *selling* a patented article * * * to restrict * * * the price at which the latter may resell * * *."

The "contract," in designating the price and the terms of the sale of records, shows that the records would be purchased at certain stipulated prices, less discounts. Neither the "contract," nor do the certified facts disclose, that the American Company and the Columbia Company were to have any interest in, or receive any part of any money to be derived from the resale of the articles. It is proper to assume the contrary. The prices which were paid for the

records by the Boston Store, which were designated in the certificate as "the full amount which had theretofore been fixed by the American Company," was the full purchase price therefor.

We respectfully submit, therefore, that questions 2 and 3 should be considered in the light of the fact that the delivery of the records in question by the patentee was in pursuance of a "sale" thereof and the payment of the "full amount" was the payment of the full purchase price fixed by the patentee.

Bauer v. *O'Donnell, supra.*
Straus v. *Victor T. M. Co., supra*

QUESTION NO. I.

Does jurisdiction attach under the patent laws of the United States?

The certificate shows that the proceeding was a bill of complaint (p. 5) and the opinion of the District Court (225 Fed., 785-789) shows that the same prayed for an injunction to prevent a breach of the price restriction on resale.

Appellant, Boston Store of Chicago, concedes that question number 1 may be answered in the affirmative, and such concession arises from the settled rulings of this Court. In the

Dick case, 224 U. S. (p. 12),

the Court discussed

> "* * * whether this is a suit of which the Circuit Court had jurisdiction as a suit arising under the patent law, * * *"

the notice of restriction as to "*use*" in the *Dick* case was deemed an "agreement." There it was argued:

> "What defendants say is that this agreement was collateral * * *" (p. 12).

The "agreement" was termed by the Court of Appeals, which certified that case, a

> "* * * license which was attached to said machine * * *"

In discussing the jurisdiction in the *Dick* case, *supra,* the Supreme Court says (p. 13):

> "We do not prescribe the jurisdiction of Courts, federal or state, but only give effect to it as fixed by law. If a bill asserts a right under the patent law to sell a patented machine subject to restrictions as to its use, and alleges a use in violation of the restrictions as an infringement of the patent, it presents a question of the extent of the patentee's privilege, which, if determined one way, brings the prohibited use within the provisions of the patent law, or, if determined the other way, brings into operation only principles of general law. Obviously, a suit for infringement, which must turn upon the scope of the monopoly or privilege secured to a patentee, presents a case arising under the patent law. The jurisdiction of the Circuit Court over such cases has, for more than a century, been exclusive, by the express terms of the statute, although, for the most part, its jurisdiction over other kinds of suits arising under the constitution and laws of the United States is only concurrent with that of the state Courts. * * *"

And again, on page 16:

> "The test of jurisdiction is this: Does the complainant 'set up some right, title or interest

under the patent laws of the United States, or make it appear that some right or privilege will be defeated by one construction, or sustained by another, of those laws'? (*Excelsior Wooden Pipe Co.* v. *Pacific Bridge Co.*, 185 U. S., 282; *Pratt* v. *Paris Gaslight & Coke Co.*, 168 U. S., 255, 259; *White* v. *Rankin*, 144 U. S., 628.)

"The bill alleges that the complainant's patent has been infringed by the breach of the conditions upon which the patented machine was sold. The remedy it seeks is an injunction against indirect infringement by the defendants. The facts stated upon the face of the bill may be insufficient to show an infringement of the patent; but the right to treat the conduct of the defendants as an indirect infringement is a right which the complainant sets up as arising under the patent law. One construction of the scope of the grant will sustain the rights asserted, if the facts be as alleged, and another will defeat those rights.

"Whether a patentee may lawfully impose such restrictions, and whether their violation constitutes an infringement, are obviously questions arising under the patent law. * * *"

In the later case of

The Fair v. *Kohler Die Co.*, 228 U. S., 22,

it appears that a bill was filed by the patentee to prevent a failure to observe a price restriction in the resale of a patented article. It was contended that the court had no jurisdiction (there being no diversity of citizenship), because the case did not arise under the patent law, and the Court said, page 24:

"Obviously the plaintiff sued upon the patent law, so far as the purport and intent of the bill is concerned. * * * In the earlier paragraphs of the bill it charged an infringement of its patent rights in general terms, and it

sought triple damages, which it could have done only by virtue of the statute. It is true that later it set up the sale at a dollar and a quarter as an infringement and that we may guess that this is the only one, although it does not say so. But if that is the plaintiff's only cause of action, still the plaintiff relies upon it as an infringement and nothing else—so that, good or bad, the cause of action alleged is a cause of action under the laws of the United States.

"Of course the party who brings a suit is master to decide what law he will rely upon and therefore does determine whether he will bring a 'suit arising under' the patent or other law of the United States by his declaration or bill. That question cannot depend upon the answer, and accordingly jurisdiction cannot be conferred by the defense even when anticipated and replied to in the bill. (*Devine* v. *Los Angeles*, 202 U. S., 313, 334.) Conversely, when the plaintiff bases his cause of action upon an act of Congress jurisdiction cannot be defeated by a plea denying the merits of the claim. It might be defeated, no doubt, in a case depending on diversity of citizenship by a plea to the citizenship of parties. (*Interior Construction and Improvement Co.* v. *Gibney*, 160 U. S., 217, 219.) We are speaking of a case where jurisdiction is incident to a federal statutory cause of action. Jurisdiction is authority to decide the case either way. Unsuccessful as well as successful suits may be brought upon the act, and a decision that a patent is bad, whether on the facts or the law, is as binding as one that it is good. (See *Fauntleroy* v. *Lum*, 210 U. S., 230, 235.) No doubt if it should appear that the plaintiff was not really relying upon the patent law for his alleged rights, or if the claim of right were frivolous, the case might be dismissed. In the former instance the suit would not really and substantially involve a controversy within the jurisdiction of the court (*Excelsior Wooden*

Pipe Co. v. *Pacific Bridge Co.*, 185 U. S., 282, 287, 288), and in the latter the jurisdiction would not be denied, except possibly in form. (*Deming* v. *Carlisle Packing Co.*, 226 U. S., 102, 109.) But if the plaintiff really makes a substantial claim under an act of Congress there is jurisdiction whether the claim ultimately be held good or bad."

See, also:

Healy v. *Sea Gull Specialty Co.*, 237 U. S., 479.

Geneva Furniture Company v. *Karpen*, 238 U. S., 254.

QUESTION NO. II.

If so, do the recited facts disclose that some right or privilege granted by the patent laws has been violated?

QUESTION NO. III.

Can a patentee in connection with the act of delivering his patented article to another for a gross consideration then received, lawfully reserve, by contract, a part of his monopoly right to sell?

We will discuss both of these questions together, because, as applied to the facts, the **second** question is *whether the resale at a price less than the list price constitutes an infringement of a patent*, and, as applied to the facts, the **third** question is *whether a patentee can in connection with his act of selling his patented article to another for a purchase price*

then received lawfully reserve, **by contract,** *a restriction as to the price at which the article may be resold.*

Let us see.

The so-called "contract" (by way of a *notice* appearing in the first paragraph thereof) says:

> "All 'Columbia' * * * records are manufactured by the American * * * Company under * * * patents and licensed and *sold* through its sole sales agent, the Columbia * * * Company * * * subject to conditions and restrictions as to * * * prices at which they may be *resold* by any person into whose hands they come. Any violation of such conditions or restrictions makes the seller * * * liable as an infringer of said patents.
>
> "After reading the foregoing *notice* and in consideration of current dealers' discounts given to * * * us by the Columbia * * * Company * * * we agree to take any Columbia product received by * * * us from said Company * * * under conditions and restrictions *referred to in said notice* and to adhere strictly and be bound by the *official list prices* established from time to time by *said* Company and * * * we will neither give, * * * *sell* or offer for sale * * * at less than *such list prices* * * * and * * * we understand that a breach of this agreement will amount to an infringement of said patents and subject * * * us to a suit and damages therefor.
>
> "(Dated) Oct. 15/12.
>
> (Signed) Boston Store."

(Tr., 1-2; Rec., 2-3.)

The certificate, among other things, certifies that: "* * * the Columbia Company, acting as the agent of the American Company, *in pursuance of*

said contract delivered * * * to the Boston Store a quantity of * * * records manufactured by the American Company under said letters patent; and the Boston Store paid the *full amount which had theretofore been fixed by* the American Company.

"The American Company, acting through its agent, the Columbia Company, employs in marketing its * * * records * * * a system of price maintenance by which * * * it has been its uniform practice to cause its agent, the Columbia Company, to enter into similar contracts as the one above set forth in the name of the Columbia Company with dealers in * * * records to whom the American delivers its product through the Columbia Company, by which it is provided in part that * * * the dealer * * * obligates * * * itself in selling such products to adhere strictly and be bound by and not depart from the *official list prices promulgated from time to time by the Columbia Company for said products*, and further covenants not in any way to dispose of any such products at less than such list prices.

"The American Company fixes and prescribes the prices of its said products and said contracts, when entered into, cover all such products of the American Company which may thereafter from time to time be acquired by such dealers from the Columbia Company, without any new express price restriction *contract* being entered into at the time when each order for goods subsequent to the entering into of said *contract* is placed or filled by said dealers. * * *

* * * * * * * *

"Prior to the filing of the bill of complaint, the Boston Store had knowingly sold and * * * was knowingly selling at retail * * * said records so * * * obtained from the Columbia Company at a price less than the official list prices theretofore established by the American Company and by the Columbia Company." (Tr., 3-4; Rec., 4-5.)

Questions II and III, in effect, submit the question *whether a right or privilege is granted* BY THE PATENT LAWS *to a patentee to restrict by an* EXPRESS WRITTEN AGREEMENT *a price at which his immediate vendee may market the patented article;* said agreement being entered into by the latter with the patentee while the latter is exercising his exclusive right to vend the patented product.

In the determination of whether such right or privilege exists under the patent law one must look to the law as passed by Congress, and in so doing the courts are required to construe the statute. There is no other way to ascertain whether such right or privilege exists. The *means* whereby such power is attempted to be exercised cannot be considered on ascertaining whether the laws confer the power.

The patent law in force at the time of the making of the *contract* granted to "the patentee, his heirs and assigns, for the term of seventeen years, * * * the exclusive right to make, use and vend the invention."

Revised Statutes, Sec. 4884.
Comp. St. 1913, Sec. 9428.

That expresses the full monopoly.

It was held in the case of

Adams v. *Burke,* 17 Wall., 453, 456,

that the right to *manufacture,* the right to *sell,* and that the right to *use* may be conferred separately by the patentee.

This Court held, in the case of

Bauer v. *O'Donnell,* 229 U. S., 1-10,

(referred to hereinafter as the *Sanatogen* case):

> "The right to *make, use* and *sell* an invented article is not derived from the patent law. This right existed before and without the passage of the law and was always the right of an inventor. The act secured to the inventor the *exclusive* right to make, use and vend the thing patented, and consequently to prevent others from exercising like privileges without the consent of the patentee. *Bloomer* v. *McQuewan,* 14 How., 539, 549; *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.,* 210 U. S., 405, 425. It was passed for the purpose of encouraging useful invention and promoting new and useful improvements by the protection and stimulation thereby given to inventive genius, and was intended to secure to the public, after the lapse of the exclusive privileges granted, the benefit of such inventions and improvements. With these beneficent purposes in view the act of Congress should be fairly or even liberally construed; yet, while this principle is generally recognized, care should be taken not to extend by judicial construction the rights and privileges which it was the purpose of Congress to bestow.
>
> "In framing the act and defining the extent of the rights and privileges secured to a patentee Congress did not use technical or occult phrases, but in simple terms gave an inventor the exclusive right to make, use and vend his

invention for a definite term of years. The right to make can scarcely be made plainer by definition, and embraces the construction of the thing invented. The right to use is a comprehensive term and embraces within its meaning the right to put into service any given invention. And Congress did not stop with the express grant of the rights to make and to use. Recognizing that many inventions would be valuable to the inventor because of sales of the patented machine or device to others, it granted also the exclusive right to vend the invention covered by the letters patent. To vend is also a term readily understood and of no doubtful import. Its use in the statute secured to the inventor the exclusive right to transfer the title for a consideration to others. *In the exclusive rights to make, use and vend, fairly construed, with a view to making the purpose of Congress effectual, reside the extent of the patent monopoly under the statutes of the United States. Bloomer* v. *McQuewan, supra*, 549. We need not now stop to consider the rights to sell and convey, and to license others to sell or use inventions, which rights have been the subject of consideration in the numerous reported cases to be found in the books. *We are here concerned with the construction of the statute in the aspect and under the facts now presented.*"

And on page 16:

"In providing for grants of exclusive rights and privileges to inventors and authors we think Congress had no intention to use the term 'vend' in one sense on the patent act and 'vending' in another on the copyright law. Protection on the exclusive right to sell is aimed at in both instances, and the terms used in the statutes are to all intents the same." (The italics are ours.)

Therefore, questions II and III are questions which require only this Court *to construe the patent laws*, and for that purpose do not require the Court to consider, nor should it consider the so-called *"contract"* as a contractual obligation which the patentee is attempting to enforce, but should regard and consider it only in answering questions II and III as an attempted restriction by the patentee, imposed upon the immediate vendee, while exercising its "exclusive right to vend." The validity of such restriction must be ascertained from the patent law.

The questions submitted do not involve any construction of the exclusive rights of the patentee to *make* or to *use* the patented records. *The exclusive right to vend, alone, is involved.*

That a patentee may relinquish all or a part of his monopoly right to vend we do not deny. This we concede. This the patentee may do by, first, granting to another the exclusive right to sell, given him by the patent law. Thus in the case at bar the American Company made the Columbia Company its sole sales agent (see the notice, *supra*). Or, second, by licensing another to sell, and in so doing reserving to himself also a right to sell. Thus, coupled with a license to manufacture, a patentee may license the sale of a patented article and reserve a part of the patent monopoly, as was done in the case of

Bement v. *National Harrow Co.*, 186 U. S., 70,

where the patentee granted a *license* to defendant to *manufacture and sell* harrows in which was em-

bodied the invention of the patentee. The license provided for the payment by the licensee to the licensor of a royalty of one dollar for each harrow or frame sold, and stipulated that the licensee was not to sell to any person for a lesser price than that named, and the license was subject to change from time to time.

But the facts certified do not show an instance involving the exclusive *right* to sell or to *license* to sell, but show a *sale* of a patented article by the patentee *itself,* which constitutes the exercise and *exhaustion* of the right to vend conferred by the patent law.

The patentee has *sold* and delivered to appellant the records which it is claimed were being *resold* at less than the established price; has parted with all title to such records; and does not claim any royalties based on resales made by the purchaser; and has received from the purchaser all that it ever will be or is entitled to.

It is well settled that when a patentee sells a patented article which is valuable only for the use to which it may be put, he receives the consideration for its use and parts with the title to restrict its use.

It is so held in the case of

Adams v. *Burke, supra,*

and Mr. Justice Day, in concluding the opinion in the *Sanatogen* case, *supra,* quoted therefrom as follows:

> "But, in the essential nature of things, when the patentee, or the person having his rights, sells a *machine or instrument* whose sole value

> is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."

It has thus been the law since the decision was rendered in *Adams* v. *Burke, supra,* in December, 1873, and it would seem that the case of *Adams* v. *Burke,* which has been so often followed as being *stare decisis* on the question, should not be overruled.

A phonographic record has value only in its use. Its value only exists in causing the stylus to vibrate when being placed in contact with the record when the same is revolved. If the patentee, who is also the manufacturer, sells the record for the "full amount" which he has fixed, he thereby exercises and *exhausts* the exclusive right to vend which the patent law conferred upon him.

In

Bloomer v. *McQuewan,* 14 How., 539, *supra,*

which was cited with approval in *Adams* v. *Burke, supra,* after referring to the previous cases which had marked the distinction between the right to make and vend a patented machine and the grant of the right to use it, the Court said (p. 549):

> "The distinction is a plain one. The franchise which the patent grants consists altogether

in the right to exclude everyone from making, using or vending any patent, without the permission of the patentee. This is all that he obtains by the patent. And when he sells the exclusive privilege of making or vending it for use in a particular place, the purchaser buys a portion of the franchise which the patent confers. He obtains a share of the monopoly, and that monopoly is derived from, and exercised under, the direction of the United States. * * *

"But the purchaser of the implement or machine for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the act of Congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him whether he had a patent or not, if no other patentee stood in his way. And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under any protection of the act of Congress. And if his right to the implement or machine is infringed, he must seek redress in the courts of the state, according to the laws of the state, and not in the courts of the United States, nor under the laws of Congress granting the patent. The implement or machine becomes his private individual property, not protected by the laws of the United States, but by the laws of the state in which it is situated. *Contracts in relation to it are regulated by the laws of the state and are subject to state jurisdiction.*"

(The italics are ours.)

In

Chaffee v. *Belting Company*, 22 How., 217,

it is said:

> "When the patented machine rightfully passes to the hands of the purchaser from the patentee or from any other person by him authorized to convey it, the machine is no longer within the limits of the monopoly. According to the decision of this court in the cases before mentioned, it then passes outside of the monopoly, and is no longer under the peculiar protection granted to patented rights. By a valid sale and purchase, the patented machine becomes the private individual property of the purchaser, *and is no longer protected by the laws of the United States, but by the laws of the state within which it is situated.*"
>
> (The italics are ours.)

Again, in

Keeler v. *Standard Folding Bed Co.*, 157 U. S., 659,

this Court, reiterating the doctrine, said:

> "Upon the doctrine of these cases we think it follows that one who buys patented articles of the manufacturer from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. *It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.*"
>
> (The italics are ours.)

In

The Sanatogen case, *supra,*

this Court said (p. 16):

"The real question is whether in the exclusive right secured by statute to 'vend' a patented article there is included the right, by notice, to dictate the price at which subsequent sales of the article may be made. The patentee relies solely upon the notice quoted to control future prices in the resale by a purchaser of an article said to be of great utility and highly desirable for general use. The appellee and the jobbers from whom he purchased were neither the agents nor the licensees of the patentee. *They had the title to, and the right to sell the article purchased without accounting for the proceeds to the patentee and without making any further payment than had already been made in the purchase from the agent of the patentee. Upon such facts as are now presented we think the right to vend secured in the patent statute is not distinguishable from the right of vending given in the copyright act. In both instances it was the intention of Congress to secure an exclusive right to sell and there is no grant of a privilege to keep up prices and prevent competition by notices restricting the price at which the article may be resold. The right to vend conferred by the patent law has been exercised and the added restriction is beyond the protection and purpose of the act. This being so, the case is brought within that line of cases in which this court from the beginning has held that a patentee who has parted with a patented machine by passing title to a purchaser has placed the article beyond the limits of the monopoly secured by the patent act.*"

(The italics are ours.)

There is a vast difference between a sale by the patentee of the patented article itself and an agreement whereby the exclusive right or privilege given by the patent law to sell is conveyed to another. In the one case the patentee *sells* the patented article. In the other case the patentee grants *the right to sell* the patented article. If he grants to another *the right* to sell then he has parted with the *exclusive right* which he had under the patent laws. No doubt he could make such a grant for a lump sum, large or small, as he chose, or take his pay on a fixed royalty or percentage on sale, and if he did he might fix the *price* at which the grantee of his *right to sell* could *sell*. But, having the *exclusive right to sell*, these methods of payment for the right and the restrictions as to price of sale would be but qualifications and conditions upon which the *right to sell* was granted for the patentee may have an interest in the proceeds of the sale. If the patentee's *right to sell* was transferred on condition that the transferee of the *right* could sell the article itself only at a price fixed by the patentee, it might be said that the right conveyed was not complete, but was qualified and conditional. The transfer of a *right to sell* is but a *license* and is not a *sale* of the article itself.

The transfer of such *right* must not be confused with a *sale* of the article itself by the manufacturer-patentee. The frequency of such confusion is well pointed out by Justice Hollister of the District Court of Ohio, in the case of

Ford Motor Co. v. *Union Motor Sales Co.*,
225 Fed., 373,

in a case involving the identical questions submitted for answer by the Court of Appeals. The Court said:

> "It seems to me that there is a confusion in the minds of many between this exclusive *right* to sell the patented article granted by the manufacturer-patentee, and a *sale* of the article itself by the manufacturer-patentee. If the patentee himself makes a *sale* of the article made by him under the patent *and gets his price*, the transaction partakes of all the characteristics of a *sale* of a chattel. If he sells only the *right* to sell the article, he may retain something of the complete right he has by restricting the terms under which sales may be made. If he makes no such restrictions, then, of course, the grantee of the *right* may himself fix the price at which sales may be made by him.
>
> "This contract does not give the vendee the *right* to sell. It *sells* to him the article and attempts to give him the right to resell. *He buys.* The manufacturer-patentee *sells* the product to him and then seeks to control the price at which he shall resell. If, upon payment by the dealer of the purchase price, the *title* of the machine passes to him, how can it be taken away because the user to whom the dealer has *sold* has paid a less price than the list price?" (The italics in this quotation are ours.)

In the

"Sanatogen" case, *supra*,

the Bauer Chemical Company was sole agent and licensee for the sale of an albumenoid known as "Sanatogen" covered by letters patent of the United States. The agreement provided that the agent and licensee should have power to fix the price of sale to wholesalers, distributers, retailers and the

public, the product to be furnished by the Chemical Company at manufacturer's cost, and the net profits to be equally divided by the parties. On each package was a notice similar in effect as was the notice which appeared in the so-called *contract* set forth in the certificate submitted to this Court by the Court of Appeals. On each package was the following:

> "NOTICE TO THE RETAILER.
>
> "This size package of Sanatogen is licensed by us for sale and use at a price not less than one dollar ($1.00). Any sale in violation of this condition, or use when so sold, will constitute an infringement of our patent No. 601,995, under which Sanatogen is manufactured, and all persons so selling or using packages or contents will be liable to injunction and damages.
>
> "*A purchase is an acceptance of this condition.* All rights revert to the undersigned in the event of violation.
>
> "THE BAUER CHEMICAL CO."

(The italics are ours.)

The proprietor of a drug store purchased for his retail trade from the Chemical Company original packages of Sanatogen bearing that notice. He then sold them at retail at less than one dollar, and thereupon the Chemical Company severed relations with them. He then, without the consent or license of the Chemical Company, purchased from jobbers, said jobbers having purchased from the Chemical Company, original packages of the product bearing the aforesaid notice, and expressed the intention of continuing such sales. The question for decision submitted by the Court of Appeals of the District of Columbia to the Supreme Court was: Did the acts

of the appellee (O'Donnell) in retailing at less than the price fixed in said notice the original packages of Sanatogen purchased of jobbers as aforesaid constitute infringement of appellant's patent?

This is the same question, we contend, as has been submitted in the instant case by the Court of Appeals in and for the Seventh Circuit by the third question.

Mr. Justice Day, who wrote the opinion in the *Sanatogen* case, previously rendered the decision of *Bobbs-Merrill Co.* v. *Straus*, 210 U. S., 339, where the owner of a copyright of a book undertook to limit the price of the book at retail by a notice on each book stating that no dealer was licensed to sell the same at less than one dollar, and that a sale at a less price would be treated as an infringement of the copyright. In announcing the decision of this Court, he held that the copyright statute in securing to the holder of the copyright the sole right to vend copies of the book conferred a privilege which, when the book was *sold*, was *exercised* by the holder, and that the right secured by the statute was thereby *exhausted*, and that the owner of the copyright could not by a mere notice fix such a limitation of price on resale as was attempted in that case. The Justice applied the principle of the *Bobbs-Merrill* case to the *Sanatogen* case, *supra*, under consideration, and construed the right to vend given by the copyright act to be the same as that conferred by the patent statute and held that when a patented article was sold by a manufacturer-patentee, the monopoly secured to him by the patent laws was exercised and completely *exhausted*.

This distinction, between

a *sale* or *assignment* of the *right to sell,* or
a *sale* or *license* of the *right to manufacture and sell,* and

a *sale* of the patented article itself,

was not favorably received by the trial Judge in the instant case, as will appear from his memorandum opinion (225 Fed., 785, 787), where he says:

> "But what distinction is there between selling or assigning the right to sell—to speak plainly, between licensing to sell *on terms of resale,* and *selling the patented article on terms of resale?* Each is, or involves, the bargaining away of the right secured by the patent, though the form of obligation or the manner of exercising it may be different. Naturally an absolute sale by a patentee of his patented article, is the highest form of license through which the purchaser and the public are admitted into the inventor's right so far as they may enjoy it, in the use or sale of the particular article embodying the invention. In each case, however, the licensee or vendee acquires the same right, having the same origin, and in no event exercisable without the permission of the patentee. In each, the transmission by the patentee of a whole or a part of the exclusive right which has been granted him with respect to his inventive concept is (in whole or in part) the subject of the bargain; and the fact that, in the one, the bargain also involves the transfer of title to a physical thing, embodying the concept, does not furnish a basis for distinguishing the situations in so far as they fundamentally have this common element which no one can enjoy or practice unless he can make terms with the patentee."
>
> (Italics are ours.)

It is impossible to reconcile this reasoning with the statement in the *Sanatogen* case, *supra*, wherein is said (p. 16):

> "There is no transfer of a limited right to use this invention, and to call a sale a license to use is a mere play upon words."

The learned Judge, as is evident from the language used by him, has failed to recognize the difference, as clearly pointed out by this Court in the *Sanatogen* case, between the parting by a patentee with only a *portion* of his monopoly (which is the case where he sells the right to sell or licenses another to manufacture and sell) and the exercise and complete exhaustion of his monopolistic right to vend (which is the case where he sells the patented article).

It is true that whether he parts with only a portion of his monopoly or all of it, he bargains away rights given to him by the patent law, and the acquirer of such rights obtains what in no event would be exercisable without being obtained from the patentee in the first instance. But it must be kept in mind that the patent law does not confer upon the patentee the right to sell. The patent law only gives the patentee the right to exclude another from vending the article over which the patentee has a patent, and it is only in this latter respect that the rights of a patentee are superior to that of any other manufacturer. But there exists a vital difference, none the less, which is that between parting with the *whole* of his monopoly and parting with *less* than the whole.

This distinction is made clear by the decision of the Supreme Court in the *Sanatogen* case, *supra*, and later by the District Court in the case of *Victor Talking Machine Company* v. *Straus*, 222 Fed., 524-527, affirmed by the Court of Appeals in and for the Second District in 225 Fed., 535; and by the District Court in *Ford Motor Company* v. *Union Motor Sales Company*, *supra*, and again by this court in *Straus* v. *Victor T. M. Co.*, decided April 9, 1917.

But, so says the trial Judge in the instant case (225 Fed., 788), the *Sanatogen* case was one where the question raised was whether the patent law granted to the patentee the power to restrict the retail price by *notice* affixed to the patented article, and did not involve a case where the attempt to restrict such retail price was by *contract* between the patentee and a dealer.

Granted. But the attempted distinction is totally irrelevant, in respect of the extent of the monopoly given under the patent law, to the question whether there is a legal difference between (1) a sale of a right to sell; and (2) a license to manufacture and sell; and (3) a sale of the patented article itself.

The fact that the *Sanatogen* case involved a *notice*, and the present case a *contract*, does not prevent that case from being an authority on the real question involved, which is, whether the patent law gives the patentee a right to restrict the resale price of the patented article. The basis of the holding in the *Sanatogen* case, *supra*, that the patentee could not restrict such price was not that he attempted to do it by notice, but that the monopoly secured by the patent law was exhausted by a sale of the pat-

ented article, and the patent law did not permit such attempted price restriction.

The *means* by which such purpose was sought to be carried out was not in that case regarded by this court as material. It was the *power* of a patentee to restrict the resale price which was considered. It was the question whether such power existed by virtue of the patent monopoly. It must be perfectly obvious that a patentee cannot by *contract* extend the monopoly under the patent laws by changing the form of the *means* adopted by the patentee from a mere *notice* to a *contract*. If the monopoly of sale cannot be extended by a notice affixed to and brought home to, and impliedly assented to by the purchaser, it cannot be extended by express contract.

Whatever right or power existed must arise from a construction of the patent laws, and must be determined therefrom. Whatever right the price restriction "contract" at bar gives to the patentee must be determined *therefrom* under the application of general rules of law, without any regard being given to whether the article of commerce thereby covered is patented or not.

And again repeating what this court said in *Keeler* v. *Standard Folding Bed Co., supra:*

> "Whether a patentee may protect himself and his assigns by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. *It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.*"

In the

Bobbs-Merrill case, *supra*,

the court in considering whether the exclusive right of "vending" the copyrighted article, and the right to restrict a price at which the article could be resold by a purchaser from the patentee, said (p. 349):

> "What does the statute mean in granting 'the sole right of vending the same?' Was it intended to create a right which would permit the holder of the copyright to fasten, by notice in a book or upon one of the articles mentioned within the statute, a restriction upon the subsequent alienation of the subject-matter of copyright after the owner had parted with the title to one who had acquired full dominion over it and had given a satisfactory price for it. It is not denied that one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it.
>
> "In this case the stipulated facts show that the books sold by the appellant were sold at wholesale, and purchased by those who made no agreement as to the control of future sales of the book, and took upon themselves no obligation to enforce the notice printed in the book, undertaking to restrict retail sales to a price of one dollar per copy.
>
> "The precise question, therefore, in this case is, *does the sole right to vend* (named in Sec. 4952) *secure* to the owner of the copyright the right after a sale of the book to a purchaser, *to restrict future sales of the book at retail, to the right to sell it at a certain price per copy*, because of a notice in the book that a sale at a different price will be treated as an infringement, which notice has been brought home to

> one undertaking to sell for less than the named sum. *We do not think the statute can be given such a construction, and it is to be remembered that this is purely a question of statutory construction.*" (The italics are ours.)

In the

Bobbs-Merrill case

the restriction as to the resale was an attempt to exercise an alleged power existing from the exclusive right granted under the copyright law under the phrase: "the sole right of vending the same;" and that attempted restriction was imposed by the vendor, the owner of the copyright, while exercising the exclusive right of vending, and at the very instant of the transaction; and the opinion, rendered without the dissent of any of the other members of this court, disposed of the case as one of statutory construction.

In the

Sanatogen case, *supra*,

this court, after commenting upon the fact that the court had held in *Dr. Miles Medical Co.* v. *Parks & Sons Co.*, 220 U. S., 373, that an attempt to thus fix the price of an article of general use would be against public policy and void, said:

> "It was doubtless within the power of Congress to confer such right of restriction upon a patentee. Has it done so?"

And, referring to the

Bobbs-Merrill case,

said:

> "It was there held that the statute, in securing to the holder of the copyright the sole

right to vend copies of the book, conferred a privilege which, when the book was sold, was exercised by the holder, and that the right secured by the statute was thereby exhausted. The court also held that it was not the purpose of the law to grant the further right to qualify the title of future purchasers by means of the printed notice affixed to the book, and that to give such right would extend the statute beyond its fair meaning and secure privileges not intended to be covered by the act of Congress. * * *

"While that statute (referring to the copyright Act) differs from the patent statute in terms, and in the subject-matter intended to be protected, it is apparent that in the respect involved in the present inquiry there is a strong similarity between and identity of purpose in the two statutes. * * * So far as the use of the terms 'vend' and 'vending' is concerned, the protection intended to be secured is substantially identical. The sale of a patented article is not essentially different from the sale of a book. In each case to vend is to part with the thing for a consideration. * * *

"In providing for grants of exclusive rights and privileges to inventors and authors we think Congress had no intention to use the term 'vend' in one sense in the patent act and 'vending' in another in the copyright law. Protection in the exclusive right to sell is aimed at in both instances, and the terms used in the statutes are to all intents the same."

And, on page 17:

"They had the title to, and the right to sell, the article purchased without accounting for the proceeds to the patentee and without making any further payment than had already been made in the purchase from the agent of the patentee. Upon such facts as are now presented we think the right to *vend* secured in the

> patent statute is not distinguishable from the right of *vending* given in the copyright act. In both instances it was the intention of Congress to secure an exclusive right to sell, and there is no grant of a privilege to keep up prices and prevent competition by notices restricting the price at which the article may be resold. The right to vend conferred by the patent law has been exercised, and the added restriction is beyond the protection and purpose of the act. This being so, the case is brought within that line of cases in which this court from the beginning has held that a patentee who has parted with a patented machine by passing title to a purchaser has placed the article beyond the limits of the monopoly secured by the patent act."

Again, this case was disposed of as one of statutory construction.

We believe that from the foregoing it has been conclusively demonstrated that "no right or privilege granted under the patent law has been violated," and that a patentee cannot lawfully reserve a part of his monopoly right to vend by restricting a resale at a price less than he has imposed, for no such power has been conferred upon him by the patent law.

If we are correct in our conclusion that the patent law gives to appellees no right or power to restrict the resale price of the patented phonograph records then the further question to be considered as indicated at the beginning of our argument is whether the price restriction "contract" (considered apart from the patent law) is a valid exercise of a right or power existing in a manufacturer-vendor.

This we will consider and discuss in the remaining question, which is question IV.

QUESTION NO. IV.

If jurisdiction attaches solely by reason of diversity of citizenship, do the recited facts constitute a cause of action?

If our contention that the patent law gives the patentee no right to restrict the resale price of the patented product is correct, then obviously in determining the question as to whether he has any such right, the records in question must be regarded as an ordinary article of commerce, and that the manufacturer has attempted to restrict the resale price thereof by contract.

Does, therefore, the fact that the so-called contract is entered into entitle the manufacturer to relief against a violation of the contract restriction?

We say that such relief clearly does not exist.

To permit such a restriction would violate a rule of public policy which has existed as settled law for many a day.

In

Dr. Miles Medical Co. v. *Park & Sons Co., supra* (220 U. S., 373),

which involved a restriction as to resale price upon an article of commerce manufactured under a secret process, it appeared that the manufacturer sold the article under a contract of price restriction which the Park & Sons Co., the defendants, were fully cognizant of. *The action prayed, among other relief, to enjoin Park & Sons Co. from inducing the parties who entered into the contracts from breaking them.* The *nisi prius* court dismissed the bill for

want of equity and the Court of Appeals affirmed. The Supreme Court, in passing upon the validity of such contracts, in an opinion written by Mr. Justice Hughes, said (p. 395):

> "The principal question is as to the validity of the restrictive agreements."

It appeared that the Medical Company was the manufacturer of a proprietary medicine, and it had a system of price restriction by making contracts with jobbers and dealers, and it charged Park & Sons Co. with unlawfully and fraudulently procuring medicines from the complainants, "wholesale and retail agents in violation of their contracts."

The contracts provided that the "retail agent" agreed in no case to sell or furnish the medicines to anyone at less than the full retail price as printed on the packages. The court said (p. 400):

> "That these agreements restrain trade is obvious."

It was argued in that case that a manufacturer may maintain restrictions as to resale by virtue of the fact that they relate to products of his own manufacture. In other words, that the manufacturer had a natural monopoly over the merchandise which he made in that he may make and sell or not as he chooses, and he may affix conditions as to the use of the article or as to the price at which the purchaser may dispose of it. And it was further contended that the propriety of the restriction is sought to be derived from the liberty of the producer.

But Mr. Justice Hughes said, (p. 404):

"But because the manufacturer is not bound to make or sell, it does not follow that in case of sales actually made he may impose upon purchasers every sort of restriction. Thus a general restraint upon alienation is ordinarily invalid. 'The right of alienation is one of the essential incidents of a right of general property in movables, and restraints upon alienation have been generally regarded as obnoxious to public policy, which is best subserved by great freedom of traffic in such things as pass from hand to hand. General restraint in the alienation of articles, things, chattels, except when a very special kind of property is involved, such as a slave or an heirloom, have been generally held void.' 'If a man,' says Lord Coke, in Coke on Littleton, Section 360, 'be possessed of a horse or any other chattel, real or personal, and give his whole interest or property therein, upon condition that the donee or vendee shall not alien the same, the same is void, because his whole interest and property is out of him, so as he hath no possibility or reverter; and it is against trade and traffic and bargaining and contracting between man and man.'" *Park* v. *Hartman*, 153 Fed., 24. See also, Gray on Restraints on Alienation, Secs. 27, 28.

* * * * * * * * *

"The agreements are designed to maintain prices, after the complainant has parted with the title to the articles, and to prevent competition among those who trade in them.

"The bill asserts the importance of a standard retail price and alleges generally that confusion and damage have resulted from sales at less than the prices fixed. But the advantage of established retail prices primarily concerns the dealers. The enlarged profits which would result from adherence to the established rates would go to them and not to the complainant. It is through the inability of the favored dealers to realize these profits, on account of the de-

scribed competition, that the complainant works out its alleged injury. If there be an advantage to a manufacturer in the maintenance of fixed retail prices, the question remains whether it is one which he is entitled to secure by agreements restricting the freedom of trade on the part of dealers who own what they sell. As to this, the complainant can fare no better with its plan of identical contracts than could the dealers themselves if they formed a combination and endeavored to establish the same restrictions, and thus to achieve the same result, by agreement with each other. If the immediate advantage they would thus obtain would not be sufficient to sustain such a direct agreement, the asserted ulterior benefit to the complainant cannot be regarded as sufficient to support its system.

"But agreements or combinations between dealers, having for their sole purpose the destruction of competition and the fixing of prices, are injurious to the public interest and void. They are not saved by the advantages which the participants expect to derive from the enhanced price to the consumer.

(Citing cases.)

"The complainant's plan falls within the principle which condemns contracts of this class. It, in effect, creates a combination for the prohibited purposes. No distinction can properly be made by reason of the particular character of the commodity in question. It is not entitled to special privilege or immunity. It is an article of commerce and the rules concerning the freedom of trade must be held to apply to it. Nor does the fact that the margin of freedom is reduced by the control of production make the protection of what remains, in such a case, a negligible matter. And where commodities have passed into the channels of trade and are owned by dealers, the validity of agreements to prevent competition and to maintain prices is not to be

> determined by the circumstances whether they were produced by several manufacturers or by one, or whether they were previously owned by one or by many. The complainant having sold its product at prices satisfactory to itself, the public is entitled to whatever advantage may be derived from competition in the subsequent traffic."

It must therefore be that all attempted restrictions imposed upon a vendee by the vendor are "void because his whole property is out of him, so he hath no possibility of reverter; and it is against trade and traffic and bargaining and contracting between man and man."

For a moment we will recur to the certified facts in the instant case, wherein the Court of Appeals says:

> "In pursuance of said price maintenance system the Columbia Company, acting under said instructions and as the agent of the American Company, entered into contracts similar to that hereinabove set forth with over five thousand dealers in phonographic records located in the United States and its territorial possessions."

In the

Bobbs-Merrill case, *supra,*

this court said:

> "Whatever right the manufacturer may have to project his control beyond his own sales must repend, not upon an inherent power incident to production and original ownership, but upon *agreement.*"

The plain effect of the decision in the *Dr. Miles Medical Co.* case, *supra,* was that the resale price

of unpatented articles could not be restricted by contract. This appears from the language of the Supreme Court in the *Sanatogen* case, *supra,* where the court says (p. 11):

> "The object of the notice is said to be to effectually maintain prices and to prevent ruinous competition by the cutting of prices in the sale of the patented article. That such purpose could not be accomplished by the agreements concerning articles not protected by the patent monopoly was settled by this court in the case of *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U. S., 373, in which it was held 'that an attempt thus to fix the price of an article of general use would be against public policy and void.' "

In the

Ford Motor Co. case, *supra* (225 Fed., 373), the question presented was as to the validity of *contracts* which attempted to restrict the resale price of a patented article. The court held first, that when a patentee had sold the patented article and had received the full purchase price thereof, he placed such article beyond the limits of the patent law, and thus the monopoly conferred by the patent law was exhausted. Second, that a *contract* which sought to restrict the resale price of such article which had been sold by the patentee, and for which he had received the full purchase price, was contrary to public policy and for that reason void. The questions were presented upon a motion to dismiss a bill of complaint for want of equity under Equity Rule 29, and the motion was granted, and the bill dismissed.

The learned trial Judge in the instant case has attempted to distinguish the *Sanatogen* case from the present by pointing out that there the effort to restrict the retail price was by *notice,* while here it is upon "*contract.*" This distinction, we respectfully submit, is utterly devoid of merit. The only theory upon which it could have been contended by the patentee in the *Sanatogen* case that the purchaser of the article was bound by the terms of the notice, was that in purchasing with knowledge of such terms the purchaser accepted the conditions and impliedly agreed to abide thereby.

The notice in the *Sanatogen* case was in express terms, which terms were known to the purchaser. It said:

> "A purchase is an acceptance of this condition. All rights revert to the undersigned in the event of violation."

Clearly this had every legal effect of a contract and was in effect a contract.

When, in the *Sanatogen* case, the Supreme Court, in referring to the *Dr. Miles Medical Co.* case, said that the holding of the latter was that the prevention of competition by the restriction of the resale price could not be accomplished by agreement, it drew no distinction between an *express agreement* and one arising impliedly from the purchase of the article with the knowledge on the part of the purchaser of the terms of the notice affixed to such article.

A careful consideration of the other cases where there was involved an attempt to restrict the retail

price of a patented article by notice will disclose that such notice was treated the same as a contract. The license in the *Dick* case, *supra,* read:

> "This machine is sold by the A. B. Dick Company with the license restriction that it may be used only with the stencil paper, ink and other supplies made by A. B. Dick Company, Chicago."

The defendant and the purchaser who sold to her a can of ink made by some other than the A. B. Dick Company, both had knowledge of the restriction attached to the machine. It was there said by Mr. Justice Lurton (224 U. S., 12):

> "It is not denied that she accepted the machine with notice of the condition under which the patentee consented to its use, nor is it denied that *thereby* she *agreed* not to use the machine otherwise."

There can be no doubt that the defendant in the *Sanatogen* case knew of the condition and attempt to impose the restriction on him, for in the certified facts it appears that he sold the Sanatogen at less than the price fixed in the notice and averred that he would continue such sales.

Moreover, a reading of the opinion by Mr. Chief Justice White, with whom Justices Hughes and Lamar joined in dissenting, in the *Dick* case, will make it clear that these dissenting Justices considered the attempt to restrict the resale price by notice precisely the same as an attempt to restrict it by *contract.*

Mr. Chief Justice White, in pointing out the effect of the holding of the court in the majority opinion, says (p. 69):

> "But even if I were to put aside everything I have said and were to concede for the sake of argument that the power existed in a patentee, *by contract*, to accomplish the results which it is now held may be effected, I nevertheless would be unable to give my assent to the ruling now made. If it be that so extraordinary *a power of contract* is vested in a patentee, I cannot escape the conclusion that its exercise, like every other power, should be subject to the law of the land. To conclude otherwise would be but to say that there was a vast zone of *contract* lying between rights under a patent and the law of the land, where lawlessness prevailed and wherein contracts could be made whose effect and operation would not be confined to the area described, but would be operative and effective beyond that area, so as to dominate and limit rights of every one in society, the law of the land to the contrary notwithstanding."

And, again, he says (p. 70):

> "Under the view now maintained of the right of a patentee by contract to extend the scope of the claims of his patent it would follow that the incidental right would become greater than the principal one, since by the mere will of the party rights by *contract* could be created, protected by the patent law, without any of the precautions for the benefit of the public which limit the right to obtain a patent. * * *"

And again (p. 71):

> "What could more cogently serve to point the reality and conclusiveness of these suggestions than do the facts of this case? It is admitted that the use of the ink to work the patented ma-

chine was not embraced in the patent and yet it is now held that *by contract* the use of materials not acquired from a designated source has become an infringement of the patent, and exactly the same law is applied as though the patent in express terms covered the use of ink and other operative materials. It is not, as I understand it, denied, and if it were, in the face of the decision in the *Dr. Miles Medical Co.* case, *supra,* in reason it cannot be denied that the particular *contract* which operates this result if tested by the general law would be void as against public policy. The *contract,* therefore, can only be maintained upon the assumption that the patent law and the issue of a patent is the generating source of an authority to *contract* to procure rights under the patent law not otherwise within the law, and which could not be enjoyed under the general law of the land." (Italics in above are ours.) * * *

And it was further held that:

"* * * Even if *contracts* of that character were not void as against general principles of public policy, the aid of a court of equity would not be given to their enforcement if the stipulations were unconscionable and oppressive, as are, in my judgment, aside from the rule of public policy, the stipulations of the *contract* here involved." (The italics are ours.)

The language used by the minority court in this dissenting opinion, when considered in conjunction with the fact that the dissenting Justices constituted the greater part of the majority court in the *Sanatogen* case, is highly persuasive in establishing that *when it was held in the latter case that a patentee could not by notice restrict the resale price of a patented article sold by himself, there was no*

intention on the part of the court to have a different rule apply where the attempt was by contract. This court, we respectfully submit, should follow the principles it announced in the *Sanatogen* case, and which has been regarded by the laity, as well as the profession, the settled law of the land upon the subject.

This court said:

> "If the patentee's exclusive right to sell is exhausted by a sale, he cannot by a mere notice attached to the article, though brought home to the purchaser, add to or extend his right and fix the price at which his vendee shall sell the same article." (*Sanatogen* case, *supra.*)

The system of contract is in restraint of trade and against public policy and void.

It must therefore be true that if the patentee has by a sale of the article and the receipt of his price for it, passed the title to another, he cannot enlarge or extend that right *by contract* or in any *other* way, for he had parted with what he has, and when he seeks to fix the price at which his vendee shall sell, he brings into operation other laws which conflict with such attempt, viz., those which condemn contracts in restraint of trade as contrary to public policy and rules against restraints on alienation.

Similar "contracts" to the one relied upon in the case at bar have been entered into with over five thousand dealers in phonographic records. Such reasons as may be advanced by counsel for appellees to sustain the validity of a single "contract" restricting the liberty of a single dealer, cannot be advanced to hold it valid where there are 5,000 similar "contracts" in the light of the decisions of this

court. The single "contract" might in no substantial way affect the public, while a system of them will. Whether the restraint was necessary to retain business, and therefore the principal purpose of the contract, or whether the restraining covenant was not the principal but rather the secondary purpose, depends largely upon the general sweep and result of a multiplication of identical "contracts."

The general and principal purpose of each separate "contract" is a regulation of the prices and resales of the products made by appellee, the American Company. A common purpose unites each dealer with every other dealer, and the "system" must be construed as one "piece" in which appellees and every assenting dealer is a party, and the agreements of each such dealer to sell only at the prices established by the American Company constitutes one general scheme.

It would appear from the certificate of the Court of Appeals that it is one general scheme, and we having demonstrated as we believe, conclusively, that no price restriction exists by virtue of the patent law, the attempted price restriction, we repeat, is the same restriction attempted to be made as to an ordinary article of commerce.

In

> *Continental Wall Paper Co.* v. *Voight & Sons Co.*, 148 Fed., 939; affirmed, 212 U. S., 227,

where was involved a combination in restraint of trade, and where each wholesaler and retailer in the business had executed separate but identical contracts with the corporation representing the com-

bined manufacturers, it was held that each such covenantee was a party to the general scheme for enhancing prices. This was rested upon the holding that the separate agreements constituted one whole.

The "contract" in the case at bar, as was stated in the certificate of the Court of Appeals, was entered into at Chicago, in the State of Illinois. The principal place of business of the Boston Store was at that place, and that Company was engaged in the sale of merchandise at retail.

It is proper, therefore, at the outset to ascertain what the decision of the Supreme Court of Illinois was as to contracts involving a system of price maintenance.

Mr. Justice Harlan, and the then Circuit Judges, Taft and Lurton, by an opinion written by Judge Taft, in the case of:

United States v. *Addyston Pipe & Steel Co.*, 85 Fed., 271,

on p. 289, said:

> "In *Craft* v. *McConoughy*, 79 Ill., 346, five grain dealers in Rochelle, Ill., agreed to conduct their business as if independent of each other, but secretly to fix prices at which they would sell grain, and to divide profits in a certain proportion. This was held void, as in restraint of trade, and tending to create a monopoly. In *More* v. *Bennett*, 140 Ill., 69; 29 N. E., 888, articles of association entered into by only a part of the stenographers of Chicago to fix a schedule of prices, and prevent competition among their members and a consequent reduction of prices, was held void. The court said:
>
> " 'A combination among a number of persons engaged in a particular business to stifle or prevent competition, and thereby to enhance or

diminish prices to a point above or below what they would be if left to the influence of unrestricted competition, is contrary to public policy. Contracts in partial restraint of trade which the law sustains are those entered into by a vendor of a business and its good will with its vendee, by which the vendor agrees not to engage in the same business within a limited territory; and the restraint, to be valid, must be no more extensive than is reasonably necessary for the protection of the vendee in the enjoyment of the business purchased.' * * *

"To the same effect as *More* v. *Bennett* are *Ford* v. *Association*, 155 Ill., 166; 39 N. E., 651, and *Bishop* v. *Preservers Co.*, 157 Ill., 284; 41 N. E., 765."

It is illuminating to read the observations of Judge Taft in the *Addyston Pipe & Steel Co.* case, *supra*, and of Mr. Justice Peckham, in *Montague & Co.* v. *Lowry*, 193 U. S., 38, 45 and 46, and we respectfully refer to these decisions.

In

Standard Sanitary Mfg. Co. v. *U. S.*, 226 U. S., 20,

this court said:

"The agreements clearly, therefore, transcended what was necessary to protect the use of the patent or the monopoly which the law conferred upon it. They passed to the purpose and accomplished a restraint of trade condemned by the Sherman law. It had, therefore, a purpose and accomplished a result not shown in the *Bement case*. There was a contention in that case that the contract of the National Harrow Company with Bement & Sons was part of a contract and combination with many other companies and constituted a violation of the Sherman law, but the fact was not established

and the case was treated as one between the particular parties, the one granting and the other receiving a right to use a patented article with conditions suitable to protect such use and secure its benefits. And there is nothing in *Henry* v. *A. B. Dick Co.*, 224 U. S., 1, which contravenes the views herein expressed.

"The agreements in the case at bar combined the manufacturers and jobbers of enameled ware very much to the same purpose and results as the association of manufacturers and dealers in tiles combined them in *Montague & Co.* v. *Lowry*, 193 U. S., 38, which combination was condemned by this court as offending the Sherman law. The added element of the patent in the case at bar cannot confer immunity from a like condemnation, for the reasons we have stated. And this we say without entering into the consideration of the distinction of rights for which the Government contends between a patented article and a patented tool used in the manufacture of an unpatented article. Rights conferred by patents are indeed very definite and extensive, but they do not give any more than other rights an universal license against positive prohibitions. The Sherman law is a limitation of rights, rights which may be pushed to evil consequences and therefore restrained.

"This court has had occasion in a number of cases to declare its principle. Two of those cases we have cited. The others it is not necessary to review or to quote from except to say that in the very latest of them the comprehensive and thorough character of the law is demonstrated and its sufficiency to prevent evasions of its policy 'by resort to any disguise or subterfuge of form,' or the escape of its prohibitions 'by any indirection.' *United States* v. *American Tobacco Co.*, 221 U. S., 106, 181. Nor can they be evaded by good motives. The law is its own measure of right and wrong, of what it permits, or forbids, and the judgment of the

courts cannot be set up against it in a supposed accommodation of its policy with the good intention of parties, and it may be, of some good results. *United States* v. *Trans-Missouri Freight Asso.*, 166 U. S., 290; *Armour Packing Co.* v. *United States*, 209 U. S., 56, 62."

We also refer the court to the *per curiam* decision rendered by the Court of Appeals, composed of Circuit Judges Warrington and Knappen, and District Judge Tuttle, in

United States v. *Kellogg Toasted Corn Flake Co.*, 222 Fed., 725,

and particularly the discussion commencing on page 728.

The plain effect of the "system of contracts," the purposed relation of each to every other being confessed by the very description of the method of carrying on business stated in the certificate of facts in this case, is first, to destroy all competition between dealers in selling the American Company's products. That Company restrains itself by selling only at uniform prices, and to such dealers as will sign one of the system of "contracts." The contracting dealers covenant that they will sell to no one below the "official list prices" theretofore established by the American Company and by the Columbia Company. Next, all competition between the dealers is destroyed, for each such dealer can obtain his supply only by signing one of the uniform "contracts" prepared for such dealers, whereby he covenants not to resell at less than those official list prices.

Thus, all room for competition between the dealers who supply the public is made impossible. If these contracts leave any room at any point of the line for the usual play of competition between the dealers of the product manufactured and marketed by the American Company, it is not discoverable. Thus, a combination between the manufacturer, the American Company, and the dealers, to maintain prices and to stifle competition has been brought about. It is true that the appellees are not in a combination with other *makers* of Columbia products. Concededly there are no others. If there were, there would not be a complete or general restraint; for it might then happen that these others, not being bound by any covenants, could supply the public. If the supply to come from them was inadequate for the public demand, the public might in no wise be affected.

Since the contracts entered into under said price maintenance system do restrain trade, the question arises: Is such restraint a reasonable one?

The language used by the Court of Appeals in the *Addyston Pipe Co.* case, *supra*, and by the Supreme Court in the *Keeler* v. *Standard Folding Bed Co., supra*, to which we have directed the court's attention, discuss this question.

Now, in what way is only a fair protection afforded the interests of the appellees by stifling all competition between the dealers of Columbia products in the United States and its territorial possessions? In what way are the covenants which forbid them to resell at less than the prices established by the American Company "necessary," to use Judge Taft's phrase, "to protect the covenantee in the enjoyment

of the legitimate fruits of the contract, or to protect him from the dangers of an unjust use of those fruits by the other party?" In what way is a covenant which compels dealers to maintain prices, to quote Chief Justice Tyndal, "such only as to afford a fair protection to the interests of the party in favor of whom it is given, and not so large as to interfere with the interests of the public." (*Horner* v. *Graves,* 7 Bing., 735.)

The court considered a similar price maintenance system in the *Dr. Miles Medical Company* case, *supra,* and said:

> "The bill asserts the importance of a standard retail price and alleges generally that confusion and damage have resulted from sales at less than the prices fixed. But the advantages of established retail prices primarily concerns the dealers. The enlarged profits which would result from adherence to the established rates would go to them and not to the complainant. It is through the inability of the favored dealers to realize these profits, on account of the described competition, that the complainant works out its alleged injury. If there be an advantage of a manufacturer in the maintenance of fixed retail prices, the question remains whether it is one which he is entitled to secure by agreements restricting the freedom of trade on the part of dealers who own what they sell. As to this, the complainant can fare no better with its plan of identical contracts than could the dealers themselves if they formed a combination and endeavored to establish the same restrictions, and thus to achieve the same result, by agreement with each other. If the immediate advantage they would thus obtain would not be sufficient to sustain such a direct agreement, the asserted ulterior benefit to the complainant cannot be regarded as sufficient to support its system.

"But agreements or combinations between dealers, having for their sole purpose the destruction of competition and the fixing of prices, are injurious to the public interest and void. They are not saved by the advantages which the participants expect to derive from the enhanced price to the consumer. *People* v. *Sheldon*, 139 N. Y., 251; *Judd* v. *Harrington*, 139 N. Y., 105; *People* v. *Milk Exchange*, 145 N. Y., 267; *United States* v. *Addyston Pipe & Steel Co.*, 85 Fed., Rep., 271; on app., 17 U. S., 211; *Montague & Co.* v. *Lowry*, 193 U. S., 38; *Chapin* v. *Brown*, 83 Iowa, 156; *Craft* v. *McConoughly*, 79 Illinois, 346; *W. H. Hill Co.* v. *Gray & Worcester*, 127 N. W. Rep. (Mich.), 803.

"The complainant's plan falls within the principle which condemns contracts of this class. It, in effect, creates a combination for the prohibited purposes. No distinction can properly be made by reason of the particular character of the commodity in question. It is not entitled to special privilege or immunity. It is an article of commerce and the rules concerning the freedom of trade must be held to apply to it. Nor does the fact that the margin of freedom is reduced by the control of production make the protection of what remains in such a case, a negligible matter. And where commodities have passed into the channels of trade and are owned by dealers, the validity of agreements to prevent competition and to maintain prices is not to be determined by the circumstances whether they were produced by several manufacturers or by one, or whether they were previously owned by one or by many. The complainant having sold its product at prices satisfactory to itself, the public is entitled to whatever advantage may be derived from competition in the subsequent traffic."

Prima facie the contracts in question are plainly in restraint of trade. It is for the appellees to

show that the covenants are not larger than necessary for the *lawful* protection of their business. Unless this can be done they are in no position to ask any equitable relief against a breach of the so-called "contract." That there is competition between the dealers of the American Company products is but natural and economically necessary, but such competition can be of no legal consequence, for it is no more than to say that a non-competitive system of conducting trade and traffic in the line of articles made by the American Company is of more advantage than the ordinary competitive system. The suppression of even unreasonable competition cannot sanctify an agreement or combination to restrain trade. The economic system which is the basis of modern industrial society is founded upon the theory that competition is "the life of trade" is desirable and is conducive to the well-being of society; and the common law rules against restraint of trade rest upon that foundation.

As to cases which hold that partial restraint of competition may be upheld when one sells a business or other property, provided it is no greater than necessary to enable the vendee to realize the value of the good will which he purchases, or to protect the vendor in the good will which he retains. But in the instant case the only competition which the contracts in question tend to suppress is competition among those who buy the product of the American Company, in the resale thereof. How the suppression of competition between its vendees is to secure to the American Company the enjoyment of the legitimate fruits of its contract of sale to which the

restrictive covenants are supposed to be ancillary, or to protect it against an unjust competition, is not clear, and it does not appear from the facts certified that these covenants are either necessary or reasonable. But these restrictive covenants are not ancillary. They are the main purpose of the contract and not a subordinate purpose. Covenants protecting the seller of property against the competition of the buyer by its use against the business retained by the seller which are upheld (if not wider than necessary for that purpose), have been covenants where the main purpose have been to protect the seller himself against competition directed against his retained business. No instance can be cited where such competition has been sustained by the courts, where the main and principal purpose intended and accomplished results in protecting the buyers against the competition of each other. If such a principle of restrictive competition should be sustained by the courts it would be upon an attempted economic justification, but in direct conflict with the Sherman Act, as construed by the courts.

The single direct effect of the "system of contracts" is to limit and restrain the right of each dealer to transact business in the ordinary and natural way. Each would obtain a price enhanced by the "system" over a competitive price method which had before prevailed and which it is the manifest object of the new "system" to abolish. It may be that sales go on as they would without such "system of contracts;" but at a higher price to the consumer than would otherwise have to be paid.

But it must naturally follow that a competitive system will result in the purchaser acquiring the American Company's product at a lesser price.

In the

Addyston Pipe Co. v. *United States,* 175 U. S., 211, 244,

this court said:

> "We have no doubt that where the direct and immediate effect of a contract or combination among particular dealers in a commodity is to destroy competition between them and others, so that the parties to the contract or combination may obtain increased prices for themselves, such contract or combination amounts to a restraint of trade in the commodity, even though contracts to buy such commodity at enhanced prices are continually being made. Total suppression of the trade in the commodity is not necessary in order to render a combination one in restraint of trade. It is the effect of the combination in limiting and restricting the right of each of the members to transact business in the ordinary way, as well as its effect upon the volume or extent of the dealing in the commodity, that is regarded."

We respectfully submit that Question No. One (1) should be answered in the affirmative.

Questions Nos. two (2), three (3) and four (4) should each be answered in the negative.

Respectfully submitted,

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